

Message Text

SECRET

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41

ACTION SS-30

INFO OCT-01 ISO-00 /031 W

----- 103472

P 051700Z APR 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 4428

S E C R E T SECTION 1 OF 2 KINGSTON 1229/1

EXDIS

E.O. 11652: GDS

TAGS: EFIN, EMIN, US, JA

SUBJECT: BAUXITE NEGOTIATIONS SITREP #27

REF: KINGSTON 1220

1. THE INDUSTRY HAS SUPPLIED US WITH A COPY OF THE LETTER RECEIVED BY EACH COMPANY ON APRIL 3 FROM PAT ROUSSEAU, CHAIRMAN OF THE BAUXITE COMMISSION, SCHEDULING THE NEXT NEGOTIATING SESSION AND MAKING SOME POINTS WITH RESPECT TO THE INDUSTRY OFFER SUBMITTED MARCH 26. HERewith IS THE TEXT OF THE LETTER: QUOTE

THE NATIONAL BAUXITE COMMISSION

MINISTRY OF MINING AND NATURAL RESOURCES

101 OLD HOPE ROAD, P.O. BOX 223, KINGSTON 6 JAMAICA

3RD APRIL 1974

DEAR SIRs,

I REFER TO THE MEMORANDUM DATED THE 27TH MARCH, 1974 ENTITLED "THE COMPANIES JOINT POSITION" WHICH INCLUDED COUNTER PROPOSALS CONCERNING THE FUTURE TAXATION ARRANGEMENTS THAT SHOULD BE APPLICABLE TO THE BAUXITE AND ALUMINA INDUSTRY IN JAMAICA.

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ON BEHALF OF THE NEGOTIATION TEAM, I MUST EXPRESS OUR CONCERN

THAT THE JOINT PROPOSAL DIFFERS SO WIDELY FROM THAT SUBMITTED BY THE GOVERNMENT, BOTH IN CONCEPT AND IN DOLLAR VALUE. THE TEAM CONSIDERS THAT AS A RESULT OF THE MEETING BETWEEN THE PRIME MINISTER AND YOUR COMPANY, NO DOUBT SHOULD HAVE EXISTED THAT THE GOVERNMENT PROPOSES TO RAISE SUBSTANTIAL ADDITIONAL REVENUES FROM THE BAUXITE AND ALUMINA INDUSTRY. MOREOVER, IT HAS BEEN EMPHASISED ON MORE THAN ONE OCCASION THAT SUCH ADDITIONAL REVENUES WOULD BE DETERMINED BY THE VALUE OF THE RESOURCE AND WOULD NOT NECESSARILY BEAR ANY RELATIONSHIP TO THE COUNTRY'S NEEDS FOR REVENUE AND FOREIGN EXCHANGE.

IN THE COURSE OF OUR DISCUSSIONS, THE TEAM INDICATED THAT THE GOVERNMENT'S PROPOSALS HAD TAKEN INTO ACCOUNT THE FOLLOWING FOUR CONSIDERATIONS:-

(A) ALL AVAILABLE INFORMATION INDICATES THAT WORLD DEMAND FOR ALUMINIUM IS RUNNING AHEAD OF WORLD SUPPLY, TO THE EXTENT THAT THE MAJOR COMPANIES ARE BEING FORCED TO DRAW UPON THE UNITED STATES STOCKPILE. IT IS ALSO EVIDENT THAT THIS SITUATION IS UNLIKELY TO BE RECTIFIED IN THE SHORT TERM, BECAUSE DEMAND IS GROWING AT A RATE EQUIVALENT TO ABOUT TWICE THE RATE AT WHICH CAPACITY IS INCREASING;

(B) THE PRESSURES IN THE ALUMINIUM MARKET HAVE ALREADY YIELDED SUBSTANTIAL INCREASES IN THE PRICES OF ALUMINIUM IN MOST OF THE MAJOR CONSUMING COUNTRIES. FOR EXAMPLE, THE PRICE IN WESTERN GERMANY IS CURRENTLY ABOUT 42 CENTS PER POUND WHILE IN JAPAN IT HAS ALREADY REACHED SOME 51 CENTS. ALTOGETHER, THE EVIDENCE ON PRICES SUGGESTS THAT THE PRICE INCREASES AGREE WITH THE COST OF LIVING IN THE UNITED STATES THAT WILL RUN UP TO THE END OF JULY, DO NOT YET APPROXIMATE WHAT THE FREE MARKET PRICE IS.

(C) BASED UPON INFORMATION SUPPLIED TO THE TEAM DURING INDUSTRY-WIDE AND COMPANY DISCUSSIONS, THERE IS EVIDENCE ON RECORD WHICH INDICATES THAT THE MARKET PRESSURES ON COMPETING MATERIALS SUCH AS WOOD, TIN PLATE AND PLASTICS ARE IN MOST INSTANCES EVEN MORE INTENSE THAN THOSE AFFECTING

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ALUMINIUM. THERE IS THEREFORE LITTLE DANGER THAT IF INCREASES IN ALUMINIUM PRICES IN THE UNITED STATES WERE TO CORRESPOND WITH LEVELS ALREADY ACHIEVED IN WESTERN EUROPE, THAT THIS WILL DAMAGE THE COMPETITIVE POSITION ON THE MATERIAL;

(D) OUR OWN INVESTIGATIONS HAVE SHOWN THAT THE RELATIONSHIP QUOTED BY MR. JOHN D. HARPER, PRESIDENT OF ALCOA, CONCERN-

ING THE EFFECT OF TAXES AT THE BAUXITE STAGE ON THE PRICE
OF ALUMINIUM PIG IS CORRECT; THIS IS, THAT ADDITIONAL
TAXES OF US\$2.50 A TON ON BAUXITE WOULD ADD HALF A CENT
TO THE PRICE OF ALUMINIUM PIG.

THE NEGOTIATING TEAM IS CONCERNED THAT NONE OF THE
INDUSTRY'S SUBMISSIONS HAVE SOUGHT TO RESPOND DIRECTLY TO THE
FOUR POINTS ENUMERATED ABOVE.

IN VIEW OF THE FOREGOING, I WISH TO INVITE YOU TO MEET
WITH THE NEGOTIATING TEAM ON FRIDAY, 5TH APRIL, 1974, AT 10:00 AM
WHEN WE WOULD EXPECT TO RECEIVE SPECIFIC INDICATIONS FROM YOUR
COMPANY AS TO WHETHER OR NOT IT REAGARDS AS REASONABLE THE FOUR
MAJOR PREMISES UNDERLYING THE GOVERNMENT'S PROPOSAL. IF YOU DO
NOT, THEN THE NEGOTIATING TEAM WILL EXPECT YOU TO PRESENT A
PROPERLY DOCUMENTED CASE REFUTING OUR ASSUMPTIONS AND SUPPORTING
ANY ADDITIONAL PROPOSALS YOU MAY WISH TO MAKE.

FINALLY, I MUST REMIND YOU OF THE PRIME MINISTER'S STATEMENT
TO YOUR PRESIDENT THAT THE TIME AVAILABLE FOR SETTling QUESTIONS
OF TAXATION IS LIMITED.

YOUS SINCERELY,

/S/ P. H. O. ROUSSEAU
CHAIRMAN, NATIONAL BAUXITE COMMISSION UNQUOTE. HEWITT

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ACTION SS-30

INFO OCT-01 ISO-00 /031 W
----- 103542
P 051710Z APR 74
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC PRIORITY 4429

S E C R E T SECTION 2 OF 2 KINGSTON 1229/2

EXDIS

2. COMMENT. ROUSSEAU'S LETTER IS SURPRISINGLY MODERATE
IN TONE AND INDICATES WILLINGNESS TO CONTINUE COLLECTIVE

NEGOTIATIONS IN A CONSTRUCTIVE WAY FOR THE PRESENT. THE LETTER ALSO INDICATES THAT THE GOVERNMENT HAS DECIDED TO EXTRACT ITSELF FROM THE HORNS OF A DILEMMA THAT HAS TROUBLED IT SINCE THE BEGINNING OF THE NEGOTIATIONS. THAT DILEMMA IS WHETHER TO BASE THE GOVERNMENT'S ARGUMENTS ON ECONOMIC NEED AS A RESULT OF THE ENERGY CRISIS, DEVELOPMENT IMPERATIVES, AND SO ON; OR WHETHER TO BASE THE GOVERNMENT'S POSITION ON "SIMPLE JUSTICE" BY SEEKING A MORE OR LESS FIXED PROPORTION OF THE FAIR MARKET PRICE FOR ALUMINUM ON WORLD MARKETS. IT IS EVIDENT THAT THE GOVERNMENT HAS DECIDED TO GO FOR "SIMPLE JUSTICE" RATHER THAN BASE ITS ARGUMENTS ON NEED. ALTHOUGH NOT MENTIONED IN THE LETTER, WE UNDERSTAND FROM THE INDUSTRY THAT THE GOVERNMENT HAS AGREED ORALLY TO HEAR ARGUMENT FROM SUCH ECONOMISTS AS THE INDUSTRY MIGHT CARE TO PRODUCE WHILE RESERVING THE RIGHT TO PRODUCE ITS OWN EXPERT WITNESSES. THIS APPROACH MAY HAVE RESULTED FROM CHARGE'S DISCUSSIONS WITH MEYER MATALON ON APRIL 2 (REFTEL). BUT IT IS ALSO A LOGICAL COROLLARY OF THE DECISION TO BASE THE GOJ POSITION ON THE REAL VALUE OF ALUMINUM RATHER THAN ON NEED. THE OBVIOUS NEXT STEP IS TO DETERMINE WHAT THE "REAL VALUE" OF ALUMINUM IS. HEWITT

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